

THE CANANDAIGUA NATIONAL BANK AND TRUST COMPANY

GEORGE W. HAMLIN
PRESIDENT

CANANDAIGUA, N.Y. June 17, 1938.

Hon. Marriner S. Eccles
Chairman of the Board
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

Your Secretary, at my request, was kind enough to send me a week or so ago a copy of your address to the New Jersey Bankers Association delivered on May 13th. I was especially interested in the paragraph relative to the valuation of a bank's securities by bank examiners, and I believe that the principle therein stated is absolutely sound. I understand that Mr. O'Connor, while Comptroller, and Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, have expressed themselves to substantially the same effect.

Recently, I have learned that an entirely new method of valuation of a bank's security list is being considered, which is entirely at variance with the position of all of you.

All the banks in this County are dependent largely on their investments for income and the question of depreciation in times like the present is a very vital one to us all. Under the proposed regulation, as I understand it, even though a bank has always bought nothing but non-speculative securities, as defined by the Comptroller's regulation as to those considered suitable for bank investments, it is not allowed to offset any depreciation in so called substandard bonds by appreciation in bonds still rated in its first four classifications.

The only reason why bond lists should be valued at market prices is to ascertain whether the bank's assets could be immediately turned into cash to pay off demand deposits in full. All the decisions of the Courts which I have seen on the subject have indicated that a reasonable time should be allowed for such liquidation.

Should the proposed rule be adopted, a bank might be forced to sell all its good bonds, having an appreciation, in order to realize the market profit on the same to add to reserves or undivided profit account, so that no alleged depreciation on substandard issues might be large enough to produce an impairment of capital. This would certainly be a very undesirable thing to do and it would be much better to value the whole list at market as has been the custom for some time past.

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Hon. M. S. Eccles...#2

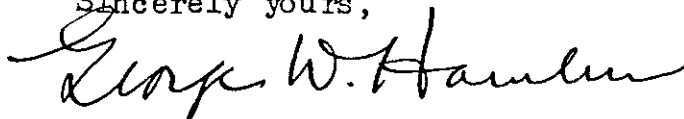
The experience of this bank covering a period of over fifty years has proved to us that your theory of valuing a bond list is perfectly sound. We have always earned enough by a wide margin to charge off any defaults, but it might be difficult where market fluctuations have been as great as they have during the past few years to charge off each time the Examiner appears the depreciation of the whole list, without the aid of the appreciation on the high grade bonds. We found on May 14th, when we had an examination by our Director's Committee, that we had an appreciation of about \$100,000.00 in our first four classifications. We needed this to reduce the depreciation on certain railroad and public utility bonds all of which, when bought, were of bankable quality with very few exceptions. I believe in the last nine years we have bought 183 different issues, only one of which was rated as low as B1 by Standard Statistics.

It would be of considerable help to banks like ours, if you could get the Committee in charge to modify the proposed rule so as to allow the first four classifications to be carried at either cost or market, whichever is higher; in other words give us the benefit of atleast cost price on all bonds that, through a depression such as this, still remain of bankable quality.

I thoroughly disapprove of using Manual ratings as they are being used, as they are very largely unreliable and are ordinarily not reduced until after a large drop in market values has occurred. Our experience has been that if we hold even defaulted bonds long enough, with very few exceptions, we got our money back. There is no doubt in my mind that out of all profits or losses recovered from the sale of bonds Reserves should be set up to take care of possible defaults. Possibly also some of the current earnings should be added to this fund.

From what I read in the newspapers, I believe you are not satisfied with the proposed regulation. I am writing you so that you will know that the banks in this locality are entirely in accord with your position as we understand it, and hope you will be able to get some change effected that will be reasonable and fair to investing banks.

Sincerely yours,



President.

Ontario County Clearing House Association.

GWH/mhs

June 27, 1938.

Mr. George W. Hamlin, President,
The Canandaigua National Bank
and Trust Company,
Canandaigua, New York.

Dear Mr. Hamlin:

This is to acknowledge receipt of your letter of June 17th with reference to undue restrictions upon bank lending and investing functions. I am enclosing a copy of the text of my recent letter in which I referred to this subject, as I felt you might be interested in seeing it.

The agreement now reached will, I hope, go far to remove the restrictions to which I referred, particularly in affecting small and medium sized businesses. Under the new agreement, as you have probably noted, Group I securities of investment quality, including the first four highest grades, i.e., AAA to BAA, inclusive, are to be treated on an investment basis without regard to current market quotations. With reference to Group II, or sub-standard securities, current market quotations are likewise to be disregarded, and in computing net sound capital, only fifty per cent of depreciation is to be deducted and this is to be based not on current market but on an average for eighteen months preceding the examination. I feel that this is a great improvement and I agree entirely with you that bank assets should not be appraised on a liquidating basis.

Your letter is of particular interest to me because of your long practical experience and intimate knowledge of this subject. It is gratifying to find your thought so closely in accord with my own. From the considerable volume of mail I have had from bankers and business men in all parts of the country, it is evident that your viewpoint, as well as my own, generally prevails with reference to the necessity for lifting the unduly restrictive policies affecting both the lending and investing functions of the banking system.

I wanted you to know that I very much appreciated your letter and your courtesy in writing.

Sincerely yours,

M. S. Eccles,
Chairman.

Received in
Chairman's Office
JUN 29 1938
Board of Governors
Federal Reserve Bank
of St. Louis
enclosure